

Deloitte.

Proposed Destination Entertainment Complex

**High level economic
impact assessment**

October 6, 2010

Audit • Tax • Consulting • Financial Advisory.



EXECUTIVE SUMMARY

Project overview

Paragon Gaming LLC (“Paragon”) will design, build and operate a new state-of-the-art destination entertainment complex (the “Project”). Based on information provided by Paragon, this Project will consist of the following components:

- two hotels, including a 297-room, 3+ star boutique hotel and a 349-room signature hotel with 4+ star Signature full-service hotel;
- a large multi-use meeting / conference and banquet event center measuring approximately 50,000 square feet;
- a casino with up to 1,500 slots and 150 table games (including 30 poker tables);
- a number of restaurants, bars and lounges (contained within both the casino and hotel components of the project);
- approximately 5,000 square feet of retail space (contained within casino / hotel space); and
- a subterranean parking facility with approximately 1,200 spaces.

EXECUTIVE SUMMARY

Economic impacts

Paragon Gaming's destination Casino and Hotel development is concluded to give rise a number of substantial economic impacts within the local and broader regional community:

- Approximately 155,000 hotel rooms nights generated within the two planned hotel developments during their first full year of operations, growing to some 181,400 hotel room nights by Year 3 (stabilized year). Approximately 30% of these room nights are projected to be new induced hotel demand.
- Total incremental visitation to the casino and hotel development, including incremental visitation as a result of destination gaming demand by non-local visitors, is projected by Year 3 to approximate some 610,000 people annually. The reader should note that this total excludes induced demand generated within the local / regional market by an international entertainment destination complex.
- Total direct spending of \$367.4 million leading to a total economic impact of \$538.5 million during facility operations per year.
- Total employment of 1,700 to 1,900 direct and some 3,365 total jobs annually per year during facility operations.

Notice to reader – please note that due to rounding, some tables in the body of this report may not add; totals are derived from the unrounded components of the calculations and are presented to one decimal place

EXECUTIVE SUMMARY

Government revenue impacts during operations

- Paragon’s Casino / Hotel project is estimated to generate significant annual revenue to each level of government during its operations. It is estimated that:
 - The City of Vancouver will generate over \$23.5 million per year from its share of the casino’s net gaming revenue, as well as from its property taxes, and hotel marketing fees;
 - The Province of British Columbia will generate \$224.3 million per year from its share of the casino’s net gaming revenue, as well as from its portion of income taxes and PST;
 - BC Pavilion Corporation (PavCo) will generate \$6.0 million per year from annual lease payments; and
 - The Federal Government will generate \$31.6 million per year from its portion of income taxes and GST.

Government Revenue (in \$ millions)	City of Vancouver	Province of British Columbia	PavCo	Federal Government	Total	Casino Owner / Operator
Gaming Revenue	\$17.24	\$195.71 ¹	--	--	\$212.95	--
FDC / AFDC	--	--	--	--	--	\$16.90 ²
Income Taxes	--	\$5.53	--	\$15.14	\$20.66	--
Sales Taxes	--	\$23.08	--	\$16.48	\$39.56	--
Marketing Revenue	\$0.69	--	--	--	\$0.69	--
Property Taxes	\$5.59	--	--	--	\$5.59	--
Lease Payment	--	--	\$6.00	--	\$6.00	--
Total	\$23.52	\$224.32	\$6.00	\$31.62	\$285.45	\$16.90

Notes: 1. Includes amounts to the Province of British Columbia and the British Columbia Lottery Corporation. All gaming revenue is premised on 1,500 slot machines and 150 table games.

2. Represents amounts utilized for construction of the casino and its affiliated components.

OVERVIEW

ECONOMIC IMPACT - SUMMARY

Summary of the estimated economic impacts of the Casino and Hotel Complex during operations

- Paragon’s Casino / Hotel Complex is estimated to generate annual economic impacts related to its operations. In total, the Project is projected to give rise to \$367.4 million in direct spending annually. This level of direct spending is anticipated to impact the broader economy and generate indirect demand for goods and services in the range of an additional \$171.1 million annually. The total economic impact of this Project is therefore estimated at some \$538.5 million per year.

Economic Impact	Casino Operations	Hotel Operations	Retail Operations	Food & Beverage Operations	Visitor Spending	Total
Direct	\$73.12	\$24.92	\$4.38	\$28.54	\$236.45	\$367.40
Indirect	\$44.85	\$9.66	\$1.63	\$13.05	\$101.91	\$171.10
TOTAL	\$117.96	\$34.58	\$6.01	\$41.59	\$338.36	\$538.50

ECONOMIC IMPACT - SUMMARY

Summary of the estimated economic impacts of the Casino and Hotel Complex during operations

- From an employment perspective, Paragon’s Casino / Hotel Project is estimated to support between 1,700 and 1,900 person years of employment (FTE’s) annually, and some 3,365 jobs in the broader economy.

Economic Impact	Casino Operations	Hotel Operations	Retail Operations	Food & Beverage Operations	Visitor Spending	Total
Direct	1,072	193	15	438	n/a	1,718
Indirect	995	240	15	395	n/a	1,645
TOTAL	2,065	435	30	835	0	3,365

- From an employment income perspective, Paragon’s Casino / Hotel Project is estimated to give rise to \$76.6 million in direct personal income per year, and more than \$113.3 million throughout the broader economy.

Economic Impact	Casino Operations	Hotel Operations	Retail Operations	Food & Beverage Operations	Visitor Spending	Total
Direct	\$47.90	\$12.77	\$0.63	\$15.31	n/a	\$76.61
Indirect	\$23.99	\$5.70	\$0.28	\$6.77	n/a	\$36.74
TOTAL	\$71.90	\$18.46	\$0.90	\$22.08	\$0.00	\$113.34

ECONOMIC IMPACT - SUMMARY

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INTRODUCTION

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Project overview

Paragon Gaming LLC (“Paragon”) will design, build and operate a new state-of-the-art destination entertainment complex (the “Project”). Based on information provided by Paragon, this Project will consist of the following components:

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- a large multi-use meeting / conference and banquet event center measuring approximately 50,000 square feet;
- a casino with up to 1,500 slots and 150 table games (including 30 poker tables);
- a number of restaurants, bars and lounges (contained within both the casino and hotel components of the project);
- approximately 5,000 square feet of retail space (contained within casino / hotel space); and
- a subterranean parking facility with approximately 1,200 spaces.

INTRODUCTION

Purpose of this economic impact study

- The purpose of this study is to identify and quantify, at a high level, the economic impacts associated with the operation of the Project.
- In completing this study, Deloitte relied upon project development information and descriptions provided by Paragon and its various consultants relating to building sizes and projected operations. Deloitte did not review or audit the information provided by Paragon, and any material changes to this information may cause material changes to the economic impact.
- In order to develop estimates of economic impact, Deloitte utilized input-output multipliers provided by Statistics Canada (for British Columbia).
- The reader should note that this study utilizes various assumptions which are based on a set of economic conditions and / or possible courses of action that are reasonable and appropriate in Deloitte's judgment, are consistent with the purpose of this high level assessment of economic impact, but which may not materialize as set out therein. These hypotheses represent plausible circumstances, but need not be, and may not be fully supported.

OVERVIEW

Types of economic impact

- **Direct Economic Impacts:** total expenditures on goods and services, including wages and benefits, for the construction of a proposed development and / or the operations of a facility or service.
- **Indirect Economic Impacts:** refers to the purchase of goods and services to produce the goods and services directly purchased in the construction of the proposed development and / or the operations of the facility or service. It measures the various interactions with other businesses which supply the necessary materials and services, which lead to indirect demand for goods and services from other industries.

Nature of economic impacts evaluated

- **Spending impact:** the impacts resulting from the purchase of goods and services
- **Employment impacts:** the increases in employment resulting the purchase of goods and services
- **Income impacts:** the increases in personal income resulting from increases in employment
- **Tax impacts:** the amount of personal income and sales taxes (HST, noted separately for the provincial and federal governments) which various levels of government could reasonably expect to receive as a result of a project's development and operation

IMPACTS DURING OPERATIONS

ECONOMIC IMPACT – PROJECT OPERATIONS

Economic impacts resulting from the operations of the casino

- As a full service casino, the Casino's Year 1 operating budget is projected to be \$73.1 million, including items such as gaming, security / surveillance and parking operations. Specific budget allocations include:
 - Payroll and salaries;
 - Marketing;
 - G&A expenses;
 - Utilities
 - Repairs and maintenance; and
 - CAM charges.
- The **Total Direct and Indirect Impact** of this spending is estimated some \$118.0 million per year.
- During operations, the Casino is estimated to directly provide 1,072 person years of employment or FTE's (including casino management, dealers, security, hosts / hostesses, maintenance, finance and admin, support and janitorial staff, etc.). The Casino is estimated to have a **Total Employment Impact** of approximately 2,065 jobs per year (FTE's).
- In employing these workers, the Casino will pay some \$47.9 million in salaries and wages annually. The Casino's Total Income Impact is estimated at \$71.9 million annually.
- Government Revenue:
 - Income taxes: Salaries paid to Casino workers will generate some \$12.7 million in total annual income tax revenues, comprised of \$9.3 million in federal income taxes and \$3.4 million in provincial income taxes.
 - Gaming Revenue Distribution ("GRD"): GRD from the Casino will generate an estimated \$212.9 million annually.
 - Sales taxes generated from parking will total some \$0.7 million annually.
 - Property taxes: the project in estimate to have an annual property tax liability of \$5.6 million.

ECONOMIC IMPACT – PROJECT OPERATIONS

Economic impacts resulting from the operations of the hotels

- The Year 1 operating budget for the Hotels, including a spa and conference centre, is projected to be \$24.9 million, including budget allocations for:
 - Payroll and salaries;
 - Marketing;
 - G&A expenses;
 - Utilities
 - Repairs and maintenance; and
 - CAM charges.
- The **Total Direct and Indirect Impact** of this spending is estimated some \$34.6 million per year.
- During operations, the Hotels are estimated to directly provide 193 person years of employment or FTE's (including facility management, marketing, maintenance, finance and admin, support and janitorial staff). The Hotels are estimated to have a **Total Employment Impact** of approximately 435 jobs per years (FTE's).
- In employing these workers, the Hotels will pay some \$12.7 million in salaries and wages annually. The Total Income Impact of the Hotels is estimated at \$18.5 million annually.
- Government Revenue (excluding property taxes):
 - Income Taxes: Salaries paid to Hotel employees will generate some \$3.9 million in total annual income tax revenues, comprised of \$2.8 million in federal income taxes and \$1.1 million in provincial income taxes.
 - Hotel Taxes / Fees: Hotel room rentals and other activities within the Hotel will generate an estimated \$6.4 million annually.

ECONOMIC IMPACT – PROJECT OPERATIONS

Economic impacts resulting from the operations of food & beverage facilities

- The Year 1 operating budget of Food & Beverage facilities is projected to be \$28.5 million, including budget allocations for:
 - Payroll and salaries;
 - Marketing;
 - G&A expenses;
 - Utilities
 - Repairs and maintenance;
 - CAM charges; and
 - Cost of goods sold.
- The **Total Direct and Indirect Impact** of this spending is estimated some \$41.6 million per year.
- During operations, Food and Beverage facilities are estimated to directly provide 438 person years of employment or FTE's (including servers and wait staff, facility management, marketing, maintenance, finance and admin, support and janitorial staff). The Food & Beverage facilities are estimated to have a **Total Employment Impact** of approximately 835 jobs per years (FTE's).
- In employing these workers, the Food & Beverage facilities will pay some \$15.3 million in salaries and wages annually. The Total Income Impact is estimated at \$22.1 million annually.
- Government Revenue (excluding property taxes):
 - Income Taxes: Salaries paid to Food & Beverage facility employees will generate some \$3.9 million in total annual income tax revenues, comprised of \$2.9 million in federal income taxes and \$1.0 million in provincial income taxes.
 - Sales Taxes: Sales taxes on food & beverage purchases are expected to generate \$4.2 million annually.

ECONOMIC IMPACT – PROJECT OPERATIONS

Economic impacts resulting from the operations of retail space

- The Year 1 operating budget for Retail space / operations is projected to be \$4.4 million, including budget allocations for
 - Payroll and salaries;
 - Marketing;
 - G&A expenses;
 - Utilities
 - Repairs and maintenance;
 - CAM charges; and
 - Cost of goods sold.
- The **Total Direct Impact** of this spending is estimated some \$6.0 million per year.
- During operations, Retail facilities are estimated to directly provide 15 person years of employment (FTE's). Retail facilities are estimated to have a **Total Employment Impact** of approximately 30 jobs per years (FTE's).
- In employing these workers, the Retail facilities will pay some \$0.6 million in salaries and wages annually. The Total Income Impact is estimated at \$0.9 million annually.
- Government Revenue (excluding property taxes):
 - Income Taxes: Salaries paid to Retail employees will generate some \$0.15 million.
 - Sales Taxes: Sales taxes for retail purchases are expected to generate some \$0.6 million annually.

ECONOMIC IMPACT – PROJECT OPERATIONS

Economic impacts resulting from visitors to the complex

- It is estimated that annual visitation to the Hotels will total almost 250,000 people in Year 1 (assuming average occupancy of 1.60 persons per room on average), increasing to over 290,000 by Year 3 (stabilized operations). In addition, incremental visitation as a result of destination gaming demand by non-local visitors, is estimated at a further 200,000 people annually. In total, the Project is projected to generate total incremental visitation by non-locals of some 610,000 people annually by Year 3.
- By Year 3, total direct spending generated by these incremental visitors estimated at some \$236.4 million per year. The **Total Direct and Indirect Impact** of the visitor spending is estimated some \$338.4 million per year.
- Government Revenue:
 - Sales Taxes: Sales taxes from visitor spending is expected to result in almost \$28.4 million in total, with \$11.8 million generated for the federal government (GST) and \$16.6 million generated for the provincial government (PST).

ECONOMIC IMPACT – PROJECT OPERATIONS

Economic impacts resulting from the operations of the project

- The Year 1 operating budget for the entire Project is therefore projected to be some \$367.4 million, including budget allocations for
 - Payroll and salaries;
 - Marketing;
 - G&A expenses;
 - Utilities
 - Repairs and maintenance;
 - CAM charges; and
 - Cost of sales.
- The **Total Direct and Indirect Impact** of this spending is estimated some \$538.5 million per year.
- During operations, the Project is estimated to directly provide between 1,700 and 1,900 person years of employment (FTE's). The Project is estimated to have a **Total Employment Impact** of approximately 3,365 jobs per years (FTE's).
- In employing these workers, the Project will pay some \$76.6 million in salaries and wages annually. The Total Income Impact is estimated at \$113.3 million annually.

ECONOMIC IMPACT – PROJECT OPERATIONS

Economic impacts resulting from the operations of the project

- Government Revenue:
 - Income Taxes: Salaries paid to employees will generate some \$20.7 million in income taxes.
 - Sales Taxes: Sales taxes for the Project’s operations are expected to generate \$39.6 million.
 - Property Taxes and Leasing Income: Property Taxes have been estimated at \$5.6 million, and annual lease payments for the property total \$6.0 million.
 - Gaming Revenue: Gaming Revenue is estimated at \$213.0 million.
 - Marketing Revenue: Marketing destination revenue is expected to total \$0.7 million.

Total Government Revenue is therefore estimated to total some \$285.5 million annually.

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Notes: 1. Includes amounts to the Province of British Columbia and the British Columbia Lottery Corporation. All gaming revenue is premised on 1,500 slot machines and 150 table games.

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

1. The use of any Projections made in conjunction with this Report may not be appropriate for use outside of their intended purpose. These Projections, which will not reflect actual financial results, may reflect a possible scenario for the Project for the Projection Period, given Deloitte's judgment as to a probable set of economic conditions, together with the hypotheses which are consistent with the purpose of the Projections. Each of the financial scenarios produced in conjunction with our analysis may contain hypotheses and assumptions which are based on a set of economic conditions or anticipated courses of action that are reasonable and appropriate in Deloitte's judgment, are consistent with the purpose of the projections, but which may not materialize as set out therein. The hypotheses represent plausible circumstances, but need not be, and may not have been fully supported.

Since future events are not subject to precise projections, some assumptions will not materialize in the exact form presented by our analysis. In addition, other unanticipated events and circumstances may occur which could influence the future outcome and performance of the Project. Therefore, the results achieved in future operating periods will vary from the analysis of prospective market and financial conditions set out therein. While there is no recourse to predicting these matters with certainty apart from informed and reasoned judgments, it must be stated that future events may lead to variations in Project performance which may materially alter Project results. Deloitte does not warrant that actual results achieved during the Projection Period will be the same, in whole or in part, as those shown in the Projection. The Projection is based on hypotheses and there is a significant risk that actual results will vary, perhaps materially, from the results projected.

2. Responsible ownership and competent property management are assumed.
3. Information furnished by others upon which all or portions of this report are based, is believed to be reliable, but has not been verified in all cases. No warranty is given as to the accuracy of such information.
4. Our report and work product cannot be included, or referred to, in any prospectus, securities and exchange commission filing or other public or investment document.
5. The intended use of this report is as a high level examination of the economic impact of the Project. A detailed feasibility review / analysis has not been undertaken, nor should one infer that such a study has been undertaken.
6. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization have been, or can readily be obtained, or renewed for any use on which the estimates provided in this report are based.
7. No investigation has been made of, and no responsibility is assumed for, the legal description or for legal matters including title or encumbrances. The property is assumed to be free and clear of liens, easements, encroachments and other encumbrances unless otherwise stated.
8. Full compliance with all applicable federal, provincial and local zoning, use, occupancy, environmental, and similar laws and regulations is assumed, unless otherwise stated.
9. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions which occur subsequent to the effective date of this report.
10. Any financial structure cities within this report is predicated on the market conditions prevailing as of the date of this report.

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

11. Areas and dimensions of the property were obtained from sources believed to be reliable. Maps or sketches, if included in this report, are only to assist the reader in visualizing the property and no responsibility is assumed for their accuracy. No independent surveys were conducted.
12. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that affect value. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
13. No soil analysis or geological studies were ordered or made in conjunction with this report, nor was an investigation made of any water, oil, gas, coal, or other subsurface mineral and use rights or conditions.
14. Neither Deloitte nor any individuals signing or associated with this report shall be required by reason of this report to give further consultation, to provide testimony or appear in court or other legal proceedings, unless specific arrangements thereof have been made.
15. This report has been made only for the purpose stated and shall not be used for any other purpose. Neither this report nor any portions thereof (including without limitation any conclusions as to value, the identity of Deloitte or any individuals signing or associated with this report, or the professional associations or organizations with which they are affiliated) shall be disseminated to third parties by any means without the prior written consent and approval of Deloitte.
16. We have not been engaged nor are qualified to detect the existence of hazardous material which may or may not be present on or near the property. The presence of potentially hazardous substances such as asbestos, urea-formaldehyde foam insulation, industrial wastes, etc. may affect the value of the property. The estimates presented herein are predicated on the assumption that there is no such material on, in, or near the property that would cause a loss in value. No responsibility is assumed for any such conditions or for any expertise or engineering knowledge required to discover them. The client should retain an expert in this field if further information is desired.
17. We have not audited or otherwise verified the capital cost estimates associated with this Project.

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